Survey of US Sovereign Wealth Funds – Asset Allocation, Performance, Governance Structures, Constraints & Spending Policies
Wyoming State Treasurer’s Annual Conference
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Overview of Peer Survey
Overview of Peer Survey

- RVK conducted a survey of US SWFs in order to gain additional insight and perspective on the unique governance structures, constraints, spending models of other US based funds with similar objectives to Wyoming.
- This presentation includes information gathered by RVK via the survey and interviews with senior investment staff across the various funds, RVK consulting teams that serve those funds, and publicly available performance and asset allocation data.
- The survey focused on the following:
  - Objectives, Asset Allocation, and Performance
  - Governance and Decision Making Structures
  - Constraints and Spending
A Note About Backwards Looking Peer Comparisons

- Historical comparisons can be helpful, but should be approached with a degree of caution
  - They rarely convey a full sense of the unique objectives and constraints faced by each institution
  - They don’t necessarily separate luck from skill
  - They don’t tell you what will work best in the future

- Focus should be on the primary objectives of each institution, the road ahead, and the removal of as many obstacles as possible that stand in the way of achieving the objectives
Forward Looking Perspective:
US Equity Valuations: Shiller P/E vs. Forward Returns

Trendline at 12/31/2018 = 1.6% Real Return

Forward 10-Year Real Return:
1926-2008 Correlation: -64%
1976-2008 R Squared: 0.40
Dec 2018 CAPE: 27.6

Overview of Peer Survey
Overview of Peer Survey

Forward Looking Perspective:
US Fixed Income Valuations: Current Yield vs. Forward Returns

Trendline at 12/31/2018 = 3.75% Nominal Return

Forward 10-Year Return:
1976-2008 Correlation: 92%
1976-2008 R Squared: 0.85
Dec 2018 YTW: 3.28%

Trendline = 0.9321x + 0.007
Overview of Peer Survey

US Sovereign Wealth Funds

- Alaska Permanent Fund
- Commissioners of the Land, State of Oklahoma
- Idaho Endowment Fund Investment Board
- Montana Board of Investments
- New Mexico State Investment Council
- North Dakota Legacy Fund
- North Dakota State Land Board
- Texas Board of Education
- Utah State Trust Lands Administration
- Wyoming State Treasurer’s Office
- Alabama Trust Fund
- Arizona State Treasurer
- Louisiana Education Quality Trust Fund
- Minnesota Permanent School Fund
- Texas University Fund

*Indicates survey respondent or RVK client.
Overview of Peer Survey

Universe Summary and Characteristics

Main Objective

Intergenerational Equity

Source of Funds

Commodity

Non-Commodity

US SWFs - Permanent Fund Assets

Wyoming Perm. Funds AUM: $14.8 Billion
Median Peer AUM: $4.5 Billion
Average AUM: $12.5 Billion

Data is as of June 30, 2018. Wyoming Perm. Funds AUM includes the Permanent Mineral Trust Fund, Common School Permanent Land Fund, Permanent Land Fund, University Permanent Land Fund, Hathaway Scholarship, Higher Education, and Workers' Compensation. Assets reflect permanent fund assets only and may differ from total AUM reported by the entity.
Asset Allocation and Performance
Objectives

- Stated performance objectives are commonly tied to the spending policy and preserving the purchasing power of the SWF for future generations.

Survey Results - Return Objectives

- Inflation Plus Spending: 6
- Nominal Return Objective: 1
- Relative Outperformance versus Target Benchmark: 3
Asset Allocation

Allocation to Fixed Income & Cash as of June 30, 2018

Allocations shown for WSTO consist of actual allocations as of June 30, 2018, not target.
**Asset Allocation**

- Wyoming (PMTF and CSPLF) has a higher allocation to US fixed income and real estate, with lower allocations to public equities and alternatives compared to the median US sovereign wealth fund peer.

<table>
<thead>
<tr>
<th></th>
<th>US Equity</th>
<th>Int'l Equity</th>
<th>US Fixed Income</th>
<th>Int'l Fixed Income</th>
<th>Real Estate</th>
<th>Hedge Funds Private Equity</th>
<th>Infra.</th>
<th>Cash</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>WSTO PMTF</td>
<td>14.0%</td>
<td>14.0%</td>
<td>35.0%</td>
<td>5.0%</td>
<td>11.0%</td>
<td>7.5%</td>
<td>N/A</td>
<td>N/A</td>
<td>5.5%</td>
</tr>
<tr>
<td>WSTO CSPLF</td>
<td>10.0%</td>
<td>10.0%</td>
<td>52.0%</td>
<td>7.0%</td>
<td>14.0%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>7.0%</td>
</tr>
<tr>
<td>Median</td>
<td>23.4%</td>
<td>18.7%</td>
<td>32.0%</td>
<td>5.1%</td>
<td>7.5%</td>
<td>7.5%</td>
<td>9.9%</td>
<td>4.9%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

*Population: 15 13 16 9 13 5 6 4 11 9*

All data is as of June 30, 2018. PMTF and CSPLF allocations shown are target allocations. Universe includes US-based sovereign wealth funds only. Allocation to “Other” includes real return, MLPs risk parity, commodities and other alternative investments not broken out. Not all funds included also have publicly available performance data, therefore Universe asset allocation and performance data may not be compatible.
Asset Allocation

Asset Allocation Trends

- US Equity allocations have declined significantly over the past 10 years
- Allocations to Real Estate, Private Equity, Infrastructure, and other investments (most commonly real return, absolute return/GTAA) have increased

### Median Asset Allocation

<table>
<thead>
<tr>
<th>Category</th>
<th>US Equity</th>
<th>Non-US Equity</th>
<th>US Fixed Income</th>
<th>Non-US Fixed Income</th>
<th>Real Estate</th>
<th>Hedge Funds</th>
<th>Private Equity</th>
<th>Infrastructure</th>
<th>Cash Equivalents</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>47%</td>
<td>19%</td>
<td>34%</td>
<td>6%</td>
<td>8%</td>
<td>5%</td>
<td>3%</td>
<td>5%</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>2013</td>
<td>36%</td>
<td>16%</td>
<td>37%</td>
<td>5%</td>
<td>5%</td>
<td>8%</td>
<td>3%</td>
<td>8%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>2018</td>
<td>23%</td>
<td>15%</td>
<td>32%</td>
<td>8%</td>
<td>8%</td>
<td>10%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Allocation to “Other” includes real return, MLPs risk parity, commodities and other alternative investments not broken out.
Performance

Historical Fund Performance

- **1 Year Returns**
  - Wyoming PMTF Return: 5.3%
  - Median Peer Return: 7.3%

- **3 Year Returns**
  - Wyoming PMTF Return: 5.0%
  - Median Peer Return: 7.0%

- **5 Year Returns**
  - Wyoming PMTF Return: 6.1%
  - Median Peer Return: 7.9%

- **10 Year Returns**
  - Wyoming PMTF Return: 5.2%
  - Median Peer Return: 6.4%

All data is as of June 30, 2018 and is gross of fees.
Performance shown for North Dakota SLB is net of fees prior to 2010.
Performance is reported in US Dollars and is reflective of permanent fund assets only.
Ranking of Rolling 5 Year Returns

The below chart ranks the 5-year return of each Fund from 2006 to 2018.

Performance is gross of fees.
Performance shown for North Dakota SLB is net of fees prior to 2010.
Rolling 5 Year Returns

5-Year Rolling Performance

Performance is gross of fees. Performance for North Dakota SLB is net of fees prior to 2010.
The below chart ranks the 10-year return of each Fund from 2011 to 2018.

Performance is gross of fees.
Performance shown for North Dakota SLB is net of fees prior to 2010.
Rolling 10 Year Returns

10-Year Rolling Performance

Performance is gross of fees. Performance for North Dakota SLB is net of fees prior to 2010.
Asset Allocation vs. Objectives

- The expected risk and return of each US SWF is modeled below using RVK’s 2019 capital markets assumptions, and Fund asset allocations as of June 30, 2018.
Asset Allocation vs. Objectives

- Using RVK’s 2019 capital markets assumptions and Monte Carlo simulation, the Permanent Mineral Trust Fund and Common School Permanent Land Fund have the following probabilities of achieving the below annualized real rates of return over a 10-year period.

<table>
<thead>
<tr>
<th></th>
<th>PMTF</th>
<th>CSPLF</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0% Real Return</td>
<td>58%</td>
<td>51%</td>
</tr>
<tr>
<td>4.0% Real Return</td>
<td>45%</td>
<td>35%</td>
</tr>
<tr>
<td>5.0% Real Return</td>
<td>32%</td>
<td>22%</td>
</tr>
</tbody>
</table>
Governance & Decision Making Models
Governance and Investment Decision Making

Considerations for Governance and Decision Making

I. Defining the Scope of Authority
- Determining the optimal scope of delegated committee authority
- Identifying responsibilities to delegate to staff or third parties

II. Selecting Committee Members
- Establishing an optimal Board size
- Identifying key member roles
- Identifying value-added member attributes
- Recruiting qualified committee members
- Evaluating committee member performance
- Enforcing accountability

III. Maintaining Strategic Continuity
- Educating new and existing committee members
- Creating comprehensive and practical documentation
- Establishing a continuous, disciplined strategic review process

IV. Optimizing Decision Making and Execution
- Prioritizing issues appropriately
- Creating impactful meeting materials
- Ensuring consistent meeting attendance
- Ensuring adequate meeting preparation
- Executing meeting facilitation that balances efficiency and thoroughness

Common Obstacles
- Stakeholder time availability
- Organizational influence of committee members (e.g., major donors)
- Candidate pool constraints, such as:
  - Current committee membership,
  - Legally required representation
- Committee member turnover
- Infrequency of committee meetings
- Pre-existing investment biases of committee members
- Meeting time constraints
- Committee member availability and engagement
- Cognitive decision-making biases

For purposes of this presentation, we fill focus on Considerations I and III
- Defining the Scope of Authority
- Maintaining Strategic Continuity

Governance and Investment Decision Making

Defining the Scope of Authority

- Defining the scope of authority involves:
  1. Defining which group within the structure is responsible for (and has the authority to execute) which investment activities.
  2. Clearly documenting the decision making process so that there is no confusion about which group is responsible for certain activities.

- “The institutional frameworks across SWFs differ. Regardless of the governance framework, the operational management of an SWF should be conducted on an independent basis to minimize potential political influence or interference that could hinder the achievement of the SWF’s objectives.”

- “Sound governance is critical to maintaining stakeholder and public confidence in the Guardians and the Fund. As an autonomous Crown entity, the Guardians is legally separate from the Crown. This means that, although we are still accountable to the Government, we have operational independence regarding investment decisions and are, instead, overseen by an independent Board.”
  - New Zealand SuperFund (nzsuperfund.nz)

- “Key determinates of APFC’s governance success include: an effective independent management and organizational structure, the adherence to accountability measures, defined legal and regulatory responsibilities, established policies and procedures, as well as being a leader in establishing best practice standards.”
  - Alaska Permanent Fund Corporation (afpc.org)
Governance and Investment Decision Making

Defining the Scope of Authority

The Santiago Principles

- The Santiago Principles consists of 24 generally accepted principles and practices voluntarily endorsed by International Forum of Sovereign Wealth Funds (IFSWF) members.
- The Santiago Principles promote transparency, good governance, accountability and prudent investment practices whilst encouraging a more open dialogue and deeper understanding of SWF activities.
- Drafted by the International Working Group of SWFs and welcomed by the IMF’s International Monetary Financial Committee in 2008, the objectives of the Santiago Principles are:
  - To help maintain a stable global financial system and free flow of capital and investment;
  - To comply with all applicable regulatory and disclosure requirements in the countries in which SWFs invest;
  - To ensure that SWFs invest on the basis of economic and financial risk and return-related considerations; and
  - To ensure that SWFs have in place a transparent and sound governance structure that provides adequate operational controls, risk management, and accountability.

Source: International Forum of Sovereign Wealth Funds (IFSWF)
Governance and Investment Decision Making
Defining the Scope of Authority

A Selection of Santiago Principles – Generally Accepted Principles and Practices (“GAPP”)
- GAPP 4: There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF’s general approach to funding, withdrawal, and spending operations.
- GAPP 6: The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.
- GAPP 7: The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF’s operations.
- GAPP 9: The operational management of the SWF should implement the SWF’s strategies in an independent manner and in accordance with clearly defined responsibilities.
- GAPP 10: The accountability framework for the SWF’s operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.
- GAPP 13: Professional and ethical standards should be clearly defined and made known to the members of the SWF’s governing body(ies), management, and staff.
- GAPP 14: Dealing with third parties for the purpose of the SWF’s operational management should be based on economic and financial grounds, and follow clear rules and procedures.
- GAPP 16: The governance framework and objectives, as well as the manner in which the SWF’s management is operationally independent from the owner, should be publicly disclosed.

Source: International Forum of Sovereign Wealth Funds (IFSWF)
Governance and Investment Decision Making

Defining the Scope of Authority

- Representative separation of roles and responsibilities in formulating and implementing investment policy between a SWF’s owner and the fund manager

**Responsibilities of the Owner**
- Articulate fund objectives
- Define risk tolerances
- Define investment horizon
- Review investment performance

**Responsibilities of the Fund: Implementation of the Investment Policy**
- Propose capital markets assumptions
- Implement strategic asset allocation
- Manage portfolios in-house or select external managers
- Measure risk and performance
- Report to the owner and stakeholders

**Retained or Delegated by the Owner to the Fund**
- Approve:
  - Strategic asset allocation
  - Policy benchmarks
  - Active risk budget

Delegation Framework

| Delegation Criteria | 1. Strategic Importance  
|                     | 2. Decision Frequency |

<table>
<thead>
<tr>
<th>Strategic Importance</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of fund mission and objectives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection and oversight of investment consultant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval of investment policy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Decision Makers | 1. Board of Trustees  
|                 | 2. Investment Committee  
|                 | 3. Investment Managers  
|                 | 4. Investment Staff |

<table>
<thead>
<tr>
<th>Frequency of Required Decisions</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of investment fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment performance reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection and oversight of investment managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tactical asset allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proxy voting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual security selection</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Governance and Investment Decision Making
Defining the Scope of Authority

- Out of the 10 Funds surveyed, some form of Investment Board is most likely to have the responsibility of approving the strategic asset allocation and investment policy. The Land Board only owns these decisions for 3 of the 10 funds.
- Tactical asset allocation and selection of asset managers are the tasks most likely to be delegated to staff.

Survey Results – Primary Responsibilities
### Governance and Investment Decision Making

**Defining the Scope of Authority**

- Composition of the entity with primary investment responsibility for each survey respondent

<table>
<thead>
<tr>
<th>Idaho EFIB</th>
<th>New Mexico SIC</th>
<th>Utah SITFO</th>
<th>Alaska PFC</th>
<th>Montana BOI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Composition</strong></td>
<td>Investment Board consists of six individuals from community with investment expertise appointed by Governor, 2 legislators, 1 representative from education. Investment Board reports to Land Board annually.</td>
<td>Council consists of 11 members: Governor, Treasurer, Commissioner of Public Lands, Secretary of Finance and Administration, 4 public members appointed by Legislative Council, 3 public members appointed by the Governor.</td>
<td>Quasi-governmental agency that reports to the executive branch and the legislature. 5 Board members. 4 from the community with extensive investment experience. State Treasurer is Chair. Prior to 2016 Treasurer was sole fiduciary.</td>
<td>Quasi-independent state agency. 6 Trustees appointed by Governor. Two must be cabinet members, and include the commissioner of revenue. Four public members.</td>
</tr>
</tbody>
</table>
### Governance and Investment Decision Making

**Defining the Scope of Authority**

<table>
<thead>
<tr>
<th></th>
<th><strong>Wyoming STO</strong></th>
<th><strong>North Dakota SLB</strong></th>
<th><strong>North Dakota Legacy</strong></th>
<th><strong>CLO of OK</strong></th>
<th><strong>Texas PSF</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Composition</strong></td>
<td>Board consists of Governor, Treasurer, Auditor, Secretary of State, Superintendent of Public Instruction.</td>
<td>Board consists of Governor, Secretary of State, Treasurer, Attorney General, Superintendent of Public Instruction.</td>
<td>State Investment Board – 11 member board includes Lt Governor, State Treasurer, Insurance Commissioner, Land Commissioner, Exec. Director of Workforce Safety and Insurance, plus 3 members of PERS and 3 members of TFFR.</td>
<td>Commissioners consist of Governor, Lt. Governor, Superintendent of Public Instruction, Audit and Inspector, Secretary of Agriculture.</td>
<td>Board of Education consists of 15 Elected Board Members. Chair is appointed by Governor.</td>
</tr>
</tbody>
</table>
Governance and Investment Decision Making

Maintaining Strategic Continuity

- Maintaining the strategic continuity of an investment program is a key to long-term success, therefore maximizing consistency of the key decision makers should be a top priority.
- There are inherent challenges when there are changes in the leadership of the governing body, but a commitment to the long-term strategic approach should be a top consideration.

Key Challenges

1. Investment Committee and Board Turnover
2. Creating comprehensive and practical documentation
3. Establishing a continuous, disciplined strategic review process
4. Hyper-reactivity to short-term market events

Tactics to Promote Strategic Continuity

1. Committee and Board Member Orientation
2. Annual Investment Strategy Reviews
3. Rolling Work Plans
4. Strategic Objective Statements

Source: Investment Committee Best Practices. RVK, Inc. (2017.)
Governance and Investment Decision Making

Maintaining Strategic Continuity

- Board terms of survey respondents

<table>
<thead>
<tr>
<th></th>
<th>Idaho EFIB</th>
<th>New Mexico SIC</th>
<th>Utah SITFO</th>
<th>Alaska PFC</th>
<th>Montana BOI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Length</td>
<td>4 Years</td>
<td>5 Years with staggered terms</td>
<td>6 Years</td>
<td>4 Years (with one new appointee each year)</td>
<td>4 Years (coincides with gubernatorial term)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Wyoming STO</th>
<th>North Dakota SLB</th>
<th>North Dakota Legacy</th>
<th>CLO of OK</th>
<th>Texas PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Length</td>
<td>Members are defined by their term in office</td>
<td>Members are defined by their term in office</td>
<td>Legislative member terms are defined by their time in office. PERS and TFFR members are determined by their respective Boards</td>
<td>Members are defined by their term in office</td>
<td>2 Years</td>
</tr>
</tbody>
</table>
Constraints and Spending
### Constraints and Spending

#### Wyoming Objectives, Constraints, and Spending Policies

<table>
<thead>
<tr>
<th></th>
<th>Total Return Focus</th>
<th>Income Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund Horizon:</strong></td>
<td>Permanent Funds (Perpetual)</td>
<td></td>
</tr>
</tbody>
</table>
| **Investment Constraints:** | • Corpus must be held inviolate and cannot be spent  
• Only net capital gains and income can be spent (realized losses can become problematic in this regard)  
• Maximum of 70% may be invested in equities and alternative investments (has been increased several times beginning with the initial allowance to invest in equities in 1996) |                                       |
| **Investment Goals:**   | 1. Long-Term Total Return  
2. Stable Income | 1. Sufficient Income  
2. Long-Term Total Return |
| **Spending Policy:**    |  • PMTF: 5% of trailing 5-year average market value of the fund (2.5% guaranteed to General Fund)  
• Hathaway: Full amount necessary to fully fund scholarships |  • CSPLF: 5% of trailing 5-year average market value of the fund (Full spending policy amount guaranteed)  
• Higher Education: 4.75% |
| **Recent Allocation Adjustments:** | Increased allocations to equities and alternative investments (Hedge Funds, Private Equity, Non-Core Real Estate) | Increased allocations to higher yielding assets (Preferred Stock, MLPs, Bank Loans) |

The spending policy for PMTF will become 4.75% in FY 2023 and 4.50% in FY 2024 and thereafter. The spending policy for CSPLF will become 4.75% in FY 2025 and 4.50% in FY 2026 and thereafter. The spending policy for Higher Education prior to FY 2019 was 5% of trailing 5-year average market value of the fund.
Out of the 10 Funds interviewed, there are two Funds that are not restricted to using income (interest, dividends, realized gains) for distributions.

Because these funds are allowed to spend principal, they are free to pursue a true, “Total Return” investment approach.

North Dakota State Land Board (beginning in 2010)
&
New Mexico State Investment Council (beginning in 1997)
Constraints and Spending

- There are 3 Funds with Statutory Constraints on Asset Allocation:
  - CLO of Oklahoma – maximum of 60% may be invested in equities
  - Wyoming – maximum of 70% may be invested in equities and alternative investments
  - Montana Board of Investment – may not invest in equities
Constraints and Spending

Spending Framework

- There are two commonly used frameworks for determining the level of distributions.
  1. Predetermined percentage (commonly 4-5%) applied to the trailing 3-5 year total fund market value.
  2. Investment Income (realized gains/losses, interest, and dividends).

Survey Results - Spending Methodology

- 4% of Trailing MV: 1
- 5% of Trailing MV: 5
- Earnings, Interest, Dividends (No Stated %): 4
Reserve Funds are used by some Funds to facilitate annual spending. 2 examples of how Reserve Funds are utilized by other programs:

- **Idaho EFIB** – reserve fund holds 500%-700% of annual spending to ensure stable and predictable distributions.
  - The total return of the permanent fund (above the rate of inflation) is deposited to the reserve fund each year. Rate of Inflation is added to corpus each year.
  - Land revenue is also deposited directly into the reserve fund.
  - Reserve fund is invested in same asset mix as permanent fund.
  - Reserve fund cannot be spent by the Legislature.

- **Alaska PFC** – reserve fund currently holds 400%-500% of annual spending.
  - Interest, dividends, rental income, realized and unrealized gains (losses) are deposited to the reserve account. A portion of the earnings are appropriated back into the permanent fund as an inflation-proofing mechanism, based on a calculation made each year.
  - Reserve fund is invested in same asset mix as permanent fund.
  - Reserve fund can be spent by the Legislature.
Alaska Permanent Fund Spending Policy

**Alaska Permanent Fund Corpus**

**APFC Investment Earnings** (Interest, Dividends and Capital Gains)

**Earnings Reserve Fund**

- **Spending Policy Amount (SPA)** = 5% of 5-year trailing average value of corpus, lagged by 1 year
- Contributed Back to Corpus Based on Annual Calculation

**Inflation Proofing** (Amount Based on Prior 2 Years of Inflation)

**Alaska Dividend**

**State Budget**
Idaho EFIB Spending Policy

Spending Policy Amount (SPA) = 5%-6% of trailing 3-year average market value

Idaho EFIB Corpus

Idaho EFIB Investment Earnings
(Total Return in excess of annual inflation)

Earnings Reserve Fund

Land Assets

Mineral Royalties

Revenue

Public School Fund
(largest beneficiary)

Agricultural College Fund
Charitable Institutions Fund
Normal School Fund
School of Science Fund
Penitentiary Fund
State Hospital South Fund
University Fund
Capitol Permanent Fund
Permanent Mineral Trust Fund Spending Policy

Spending Policy Amount (SPA) = 5% of five-year average value of corpus (commencing FY 2023: 4.75%; commencing FY 2024: 4.50%)

LSRA & SIPA: Receive up to 2.5% of earnings in excess of the first 2.5% given to the General Fund (commencing FY 2021: up to 2.25%; commencing FY 2022: up to 2.00%)

Excess over 150% of SPA in Reserve Account directed back to PMTF corpus – effective immediately

PMTF Reserve Account receives earnings in excess of SPA
Common School Permanent Land Fund Spending Policy

Common School Permanent Land Fund (CSPLF) Corpus

CSPLF Investment Earnings (Interest, Dividends and Realized Capital Gains)

Common School Land Income Fund

SFP: School Foundation Program

SFP Reserve Account receives the difference between investment earnings from CSLIF and SPA

Excess over 150% of SPA in Reserve Account directed back to CSPLF corpus – effective immediately

Federal Mineral Royalties – Automatic appropriation to the CSPLF Reserve Account or the SFP-RA from Federal Mineral Royalties above of below the $200 million cap equal to the extent to which earnings exceed the SPA, or in the case of the SFP-RA exceed 3%

Back flow – to ensure at least 2.5% is going to the SFP

Spending Policy Amount (SPA) = 5% of five-year average value of corpus (commencing FY 2025: 4.75%; commencing FY 2026: 4.50%)
If the Reserve Account balance exceeds the greater of $12M or 4.5% of the five-year average value of corpus, the excess is transferred back to Hathaway corpus.

Hathaway Reserve Account receives earning in excess of scholarships awarded during fiscal year. Insufficient funds in the income account are to be taken from the reserve account.
Higher Education Endowment Fund Spending Policy

Excellence in Higher Education Endowment Fund (Higher Ed) Corpus

Higher Ed Investment Earnings (Interest, Dividends and Realized Capital Gains)

Spending Policy Amount (SPA) = 4.75% of five-year average value of corpus

2/3 to University of Wyoming and 1/3 equally to 7 Community Colleges

Excess over 150% of SPA in Reserve Account directed back to Higher Ed corpus

Higher Ed Reserve Account receives earnings in excess of SPA. Insufficient funds in the income account are to be taken from the reserve account.
International Perspective
International Perspective

- Asset allocation for a subset of international SWFs is shown below (New Zealand Super Fund, Australian Future Fund, Alberta Heritage Fund, and Norway Global Pension Fund).
  - Fixed income allocations are low compared to US counterparts (all Fund allocations are lower than the peer median of 37%).

### Asset Allocation as of June 30, 2018

- **New Zealand Superannuation Fund**
  - Global Equities: 69%
  - Global Fixed Income: 10%
  - Real Estate: 5%
  - Private Equity: 2%
  - Infrastructure: 2%
  - Cash Equivalents: 1%
  - Other: 2%

- **Australian Future Fund**
  - Global Equities: 32%
  - Global Fixed Income: 9%
  - Real Estate: 14%
  - Private Equity: 8%
  - Infrastructure: 1%
  - Cash Equivalents: 5%
  - Other: 1%

- **Alberta Heritage Fund**
  - Global Equities: 36%
  - Global Fixed Income: 18%
  - Real Estate: 7%
  - Private Equity: 10%
  - Infrastructure: 1%
  - Cash Equivalents: 4%
  - Other: 3%

- **Norway Global Pension Fund**
  - Global Equities: 67%
  - Global Fixed Income: 31%
  - Real Estate: 3%
  - Private Equity: 15%
  - Infrastructure: 7%
  - Cash Equivalents: 10%
  - Other: 1%

New Zealand allocation to “Other” consists of timber (6%), other private markets (3%), other public markets (2%) and rural farmland (1%).
Australia allocation to “Other” consists of alternative assets not broken out (15%).
Alberta allocation to “Other” consists of timberland (3%) and overlays (1%).
International Perspective

Governance Structure – Australian Future Fund

- Return Objective = CPI + 4% (over 10-year rolling period)

- Governance and Decision Making Structure
  - The 7 member Board of Guardians is responsible for approving strategic asset allocation for the Fund.
    - Members are appointed by the responsible Ministers, and selected for their expertise in investing in financial assets, managing investments and corporate governance. Term lengths are 5 years.
  - The Management Agency is responsible for providing advice and recommendations to the Board of Guardians.
    - The 7 member team is drawn from across investment, finance, legal, operational and a range of other industries, bringing the skills and the private sector experience necessary to manage the day-to-day operations of the business.
  - Legislation establishes the independence of the Board and ensures that investment decisions and activities are conducted at arm’s length from government.
  - The Treasurer and the Minister for Finance have oversight of the fund subject to the independence of the Board. The Government's role includes appointing Board members and setting the investment mandate for the fund.

- Constraints and Spending
  - Starting in 2020 the Australian Government can commence withdrawing money from the Future Fund to meet its unfunded superannuation liabilities.
  - However, in 2017 the Government announced it would not make withdrawals from the Fund in 2020 and indicated its inclination to allow the Fund to grow further until at least 2026-27.
Concluding Thoughts

- **Asset Allocation**
  - Asset allocation is the primary determinant of investment returns
  - Ability to earn a premium above inflation over the next 10 years that supports a 5% spending policy and intergenerational equity appears challenged
  - Long-term, higher allocations to equities and other return seeking assets appears appropriate for perpetual funds with intergenerational objectives

- **Governance/Investment Decision Making**
  - Define Scope of Authority
    - Clearly define who is responsible for what, and clearly document
    - Best practices suggest that fund owners should retain formulation of investment objectives, while an independent entity is responsible for implementation
  - Maintain Strategic Continuity
    - Maximize consistency of investment decision makers and establish procedures to ensure that the long-term investment strategy is consistent

- **Constraints and Spending**
  - Limit statutory constraints on asset allocation to the extent possible
  - Understand the limitations of “income-only” approach to spending
  - Develop spending methodology that maximizes benefits for current and future generations
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